

**Literacy Council of Tyler, Inc.**  
**Financial Statements**  
**Together With Independent Auditor's Report**  
**December 31, 2012 and 2011**

**LITERACY COUNCIL OF TYLER, INC.**  
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**DECEMBER 31, 2012 AND 2011**

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Literacy Council of Tyler, Inc.  
Tyler, Texas

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Literacy Council of Tyler, Inc. (a non-profit organization) (the Organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

PROTHRO, WILHELM AND COMPANY, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

**OPINION**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**OTHER INFORMATION**

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2013, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

  
PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas  
September 11, 2013

**LITERACY COUNCIL OF TYLER, INC.  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 87,819	\$ 115,340
Grants receivable	70,920	83,456
Contributions receivable	18,245	14,450
Prepaid expenses	3,486	6,306
Total current assets	<u>180,470</u>	<u>219,552</u>
Non-current assets:		
Cash and cash equivalents - restricted	72,492	58,168
Endowment funds	873,072	193,757
Total non-current assets	<u>945,564</u>	<u>251,925</u>
Property and equipment, net of accumulated depreciation	<u>61,365</u>	<u>70,543</u>
Total assets	<u><u>\$ 1,187,399</u></u>	<u><u>\$ 542,020</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Payroll liabilities	\$ 898	\$ 16,584
Accounts payable	1,553	26,834
Deferred revenues	-	51,600
Total current liabilities	<u>2,451</u>	<u>95,018</u>
Net Assets:		
Unrestricted	178,018	127,031
Unrestricted - Board designated quasi-endowments	310,950	193,757
Total unrestricted	<u>488,968</u>	<u>320,788</u>
Temporarily restricted	133,858	126,214
Permanently restricted	562,122	-
Total net assets	<u>1,184,948</u>	<u>447,002</u>
Total liabilities and net assets	<u><u>\$ 1,187,399</u></u>	<u><u>\$ 542,020</u></u>

The accompanying notes are an integral part of these financial statements.

**LITERACY COUNCIL OF TYLER, INC.  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>SUPPORT AND REVENUE</b>				
Public support	\$ 189,540	\$ -	\$ 539,000	\$ 728,540
Grants	-	1,001,346	-	1,001,346
Foundations	85,000	50,375	-	135,375
In-kind donations - rent	226,064	-	-	226,064
In-kind donations	12,987	-	-	12,987
Special events, net of related expenses of \$100,715	139,896	-	-	139,896
Gain on endowments	13,677	-	18,934	32,611
Dividends	9,030	-	9,235	18,265
Interest	329	-	-	329
Book sales	16,377	-	-	16,377
Miscellaneous revenue	1,377	-	-	1,377
	<u>694,277</u>	<u>1,051,721</u>	<u>567,169</u>	<u>2,313,167</u>
Net assets released from restrictions	<u>1,044,077</u>	<u>(1,044,077)</u>	<u>-</u>	<u>-</u>
Total net assets released from restrictions	<u>1,044,077</u>	<u>(1,044,077)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and net assets released from restrictions	<u>1,738,354</u>	<u>7,644</u>	<u>567,169</u>	<u>2,313,167</u>
<b>EXPENSES</b>				
Program services	1,330,625	-	-	1,330,625
Fundraising	51,743	-	-	51,743
General and administrative	187,806	-	5,047	192,853
	<u>1,570,174</u>	<u>-</u>	<u>5,047</u>	<u>1,575,221</u>
Change in net assets	168,180	7,644	562,122	737,946
<b>NET ASSETS</b>				
Balance, beginning of year	<u>320,788</u>	<u>126,214</u>	<u>-</u>	<u>447,002</u>
Balance, end of year	<u>\$ 488,968</u>	<u>\$ 133,858</u>	<u>\$ 562,122</u>	<u>\$ 1,184,948</u>

The accompanying notes are an integral part of these financial statements.

**LITERACY COUNCIL OF TYLER, INC.  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>SUPPORT AND REVENUE</b>				
Public support	\$ 219,484	\$ -	\$ -	\$ 219,484
Grants	-	1,008,434	-	1,008,434
Foundations	-	62,500	-	62,500
In-kind donations - rent	184,440	-	-	184,440
In-kind donations	35,821	-	-	35,821
Special events, net of related expense of \$12,874	48,579	-	-	48,579
Loss on endowments	(3,018)	-	-	(3,018)
Dividends	5,500	-	-	5,500
Interest	329	-	-	329
Book sales	19,224	-	-	19,224
	<u>510,359</u>	<u>1,070,934</u>	<u>-</u>	<u>1,581,293</u>
Total support and revenue				
Net assets released from restrictions	<u>1,012,284</u>	<u>(1,012,284)</u>	<u>-</u>	<u>-</u>
Total net assets released from restrictions	<u>1,012,284</u>	<u>(1,012,284)</u>	<u>-</u>	<u>-</u>
Total support, revenue and net assets released from restrictions	<u>1,522,643</u>	<u>58,650</u>	<u>-</u>	<u>1,581,293</u>
<b>EXPENSES</b>				
Program services	1,248,921	-	-	1,248,921
Fundraising	77,860	-	-	77,860
General and administrative	169,315	-	-	169,315
	<u>1,496,096</u>	<u>-</u>	<u>-</u>	<u>1,496,096</u>
Total expenses				
Change in net assets	26,547	58,650	-	85,197
<b>NET ASSETS</b>				
Balance, beginning of year	<u>294,241</u>	<u>67,564</u>	<u>-</u>	<u>361,805</u>
Balance, end of year	<u>\$ 320,788</u>	<u>\$ 126,214</u>	<u>\$ -</u>	<u>\$ 447,002</u>

The accompanying notes are an integral part of these financial statements.

**LITERACY COUNCIL OF TYLER, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Program Services</u>	<u>Fundraising</u>	<u>General &amp; Administrative</u>	<u>Total Expenses</u>
Advertising	\$ 2,790	\$ 1,822	\$ -	\$ 4,612
Contract labor	2,243	-	-	2,243
Depreciation	16,811	378	1,700	18,889
Dues and subscriptions	-	-	794	794
Equipment rent & maintenance	13,520	3,355	2,269	19,144
Individual assistance	12,592	-	-	12,592
Instructional supplies	67,865	-	-	67,865
Insurance	8,205	-	1,600	9,805
Investment expenses	-	-	9,148	9,148
Merchant fees	-	1,389	-	1,389
Office expense	-	-	4,530	4,530
Other expenses	40	-	-	40
Payroll taxes	78,927	-	-	78,927
Postage	5,111	3,344	1,001	9,456
Printing	6,164	7,262	-	13,426
Professional fees	-	-	20,600	20,600
Rents	-	-	2,064	2,064
Rents - in-kind	180,851	-	45,213	226,064
Salaries and benefits	807,199	20,333	102,705	930,237
Special events - in-kind	-	12,987	-	12,987
Staff training	2,553	-	-	2,553
Subcontracting	44,105	-	-	44,105
Telephone	5,227	873	278	6,378
Travel and seminars	11,323	-	951	12,274
Volunteer support	3,078	-	-	3,078
Workforce training	62,021	-	-	62,021
<b>Total Expenses</b>	<b>\$ 1,330,625</b>	<b>\$ 51,743</b>	<b>\$ 192,853</b>	<b>\$ 1,575,221</b>

The accompanying notes are an integral part of these financial statements.



**LITERACY COUNCIL OF TYLER, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Program Services</b>	<b>Fundraising</b>	<b>General &amp; Administrative</b>	<b>Total Expenses</b>
Advertising	\$ 11,561	\$ 2,846	\$ -	\$ 14,407
Contract labor	9,938	-	-	9,938
Depreciation	15,357	345	1,553	17,255
Dues and subscriptions	-	-	919	919
Equipment rent & maintenance	9,700	1,764	952	12,416
Individual assistance	10,003	-	-	10,003
Instructional supplies	65,939	-	-	65,939
Insurance	8,531	-	1,600	10,131
Merchant fees	-	5,230	-	5,230
Office expense	-	-	4,533	4,533
Other expenses	298	113	2,703	3,114
Payroll taxes	73,753	-	-	73,753
Postage	4,734	3,438	1,035	9,207
Printing	5,379	8,163	169	13,711
Professional fees	-	-	20,100	20,100
Rents	-	-	2,496	2,496
Rents - in-kind	153,085	-	31,355	184,440
Salaries and benefits	766,529	19,412	101,088	887,029
Special events - in-kind	-	35,820	-	35,820
Staff training	4,923	-	-	4,923
Subcontracting	76,597	-	-	76,597
Telephone	4,872	729	279	5,880
Travel and seminars	25,811	-	533	26,344
Volunteer support	1,911	-	-	1,911
<b>Total Expenses</b>	<b>\$ 1,248,921</b>	<b>\$ 77,860</b>	<b>\$ 169,315</b>	<b>\$ 1,496,096</b>

The accompanying notes are an integral part of these financial statements.

**LITERACY COUNCIL OF TYLER, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
<b><u>CASH FLOW FROM OPERATING ACTIVITIES:</u></b>		
Change in net assets	\$ 737,946	\$ 85,197
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,889	17,255
(Increase) decrease in assets:		
Grants receivable	12,537	29,310
Contributions receivable	(3,796)	3,642
Prepaid expenses	2,820	(1,520)
Increase (decrease) in liabilities:		
Payroll liabilities	(15,686)	16,319
Accounts payable	(25,281)	22,014
Deferred revenue	(51,600)	51,600
	(62,117)	138,620
Net cash provided by operating activities	675,829	223,817
<b><u>CASH FLOW FROM INVESTING ACTIVITIES:</u></b>		
Increase in endowment assets	(679,315)	(59,431)
Purchase of property and equipment	(9,711)	(34,239)
Net cash used in investing activities	(689,026)	(93,670)
<b><u>CASH FLOW FROM FINANCING ACTIVITIES:</u></b>		
Principal payments on capital lease obligations	-	(2,447)
Net cash used in financing activities	-	(2,447)
Net increase (decrease) in cash and cash equivalents	(13,197)	127,700
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	173,508	45,808
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 160,311	\$ 173,508

The accompanying notes are an integral part of these financial statements.

**LITERACY COUNCIL OF TYLER, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**ORGANIZATION AND NATURE OF ACTIVITIES**

The Literacy Council of Tyler, Inc. (the Organization) is a non-profit corporation chartered in 1990 under laws of the State of Texas. The Organization's purpose is to improve literacy in the Tyler area and to increase awareness of illiteracy and its effects. The Organization derives its support from donor contributions, grants, and through special events for which admission fees and sponsorships are solicited from the general public.

**BASIS OF ACCOUNTING**

The accompanying financial statements have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

**ESTIMATES**

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

**CASH AND CASH EQUIVALENTS**

For the purposes of presentation in the Statements of Cash Flows, the Organization considers cash equivalents to be short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less.

**PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost for assets purchased and fair market value (at date of contribution) for assets contributed. Expenditures for property over \$2,000 and those which substantially increase useful lives are capitalized. Maintenance and repairs are expensed as incurred. Depreciation is computed using estimated useful lives of five to seven years for equipment and other property using the straight-line method. Capital leases are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets.

**SUPPORT AND REVENUES**

Contributions, including unconditional promises to give, are recognized as revenue in the period received and recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions.

When a donor restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

Donated services consist of volunteers who donate their time to tutor adult education students. No amounts have been reflected in the financial statements for donated services, since volunteers are not required to have any specific expertise. The Organization pays for all services requiring specific expertise.

**LITERACY COUNCIL OF TYLER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

**INCOME TAXES**

The activities of the Organization are exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the financial statements.

**FUNCTIONAL EXPENSES**

The costs of providing the various programs and activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and support services benefited.

**ADVERTISING COSTS**

The Organization uses advertising to promote its education programs. The costs of advertising are expensed as incurred. During the years ended December 31, 2012 and 2011, advertising costs totaled \$4,612 and \$14,407, respectively.

**RECLASSIFICATIONS**

Certain reclassifications have been made to the 2011 financial statement presentation to correspond to the current year's format. Net assets are unchanged due to these reclassifications.

**NOTE 2 – PROPERTY AND EQUIPMENT**

The composition of property and equipment at December 31, 2012 and 2011, are as follows:

	2012	2011
Furniture and equipment	\$ 239,784	\$ 215,869
Furniture and equipment - restricted	61,366	76,009
Less: Accumulated depreciation	239,785	221,336
Property and equipment, net of depreciation	\$ 61,365	\$ 70,543

The Organization has possession of restricted property and equipment. These assets were purchased with grant monies and are restricted by the granting agency. They are disclosed as restricted because they are subject to return to the granting agency. Depreciation expense as of December 31, 2012 and 2011, was \$18,889 and \$17,255, respectively.

**NOTE 3 – RECEIVABLES**

Grants receivables were \$70,920 and \$83,456 at December 31, 2012 and 2011, respectively, consisting of amounts expended by the Organization that will be reimbursed by granting agencies.

Contributions receivable, which consisted of contributions by donors but not received until the subsequent year, totaled \$18,245 and \$14,450 as of December 31, 2012 and 2011, respectively.

**LITERACY COUNCIL OF TYLER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at December 31, 2012 and 2011:

	2012	2011
Program Services	\$ 133,858	\$ 126,214

Temporarily restricted net assets released from restriction as of December 31, 2012 and 2011 were:

	2012	2011
Program Services	\$ 1,044,077	\$ 1,012,284

**NOTE 5 – ENDOWMENT FUNDS**

The Organization amended their original agreement with the East Texas Communities Foundation (“Foundation”) that was established in 2000 in order to begin an endowment fund. In November 2010, the board unanimously agreed to transfer funding from Edward Jones to the Foundation to establish two endowments. The Organization’s endowments are designated by the Board of Directors (Board). As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. In 2012, a third endowment was funded in the amount of \$539,000. In previous year, this endowment did not carry a balance.

As of December 31, 2012, the Organization maintained three endowments as follows:

1. Donor Designated Fund,
2. Operating Reserve Fund, and
3. Louis and Peaches Owen Endowment for English as a Second Language Fund

***Investment Return Objectives, Risk Parameters, and Strategies***

The Organization has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

**LITERACY COUNCIL OF TYLER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 5 – ENDOWMENT FUNDS – continued**

*Spending Policy*

*Donor Designated Fund*

The donor designated fund is invested in a conservative growth portfolio and is to be utilized for timing and cash flow issues. The funds can be accessed by the Executive Director and one officer of the Board.

*Operating Reserve Fund*

The operating reserve fund is invested in a moderate growth portfolio. The funds are to be utilized for emergencies or major capital needs. Distributions must be requested by 2/3 vote of the Organization's Board and approval by a simple majority of the Foundation's Board.

*Louis and Peaches Owen Endowment for English as a Second Language Fund*

The Louis and Peaches Owen Endowment for English as a Second Language Fund may distribute up to 5% of the value of the fund determined as of the preceding December 31. Any portion of the distribution not withdrawn by the nonprofit in one year may be withdrawn in a subsequent year.

In addition to ordinary distributions, extraordinary distributions over 5% and up to 20% of the value of the fund determined as of the preceding December 31 may be made to the nonprofit from the fund at any time in any amount if requested by a ¾ vote of the total number of directors or trustees of the nonprofit and approved by a majority vote of the Foundation's Board. Only one extraordinary distribution may be made within seven calendar years.

In addition to the ordinary and extraordinary distributions, distributions of up to 100% of the balance of the fund may be made if requested by unanimous vote of the total number of directors or trustees of the nonprofit and signed by a majority vote of the Foundation's Board.

This fund is intended to be a permanent endowment fund and any amount over 5% withdrawn in any year should be repaid as soon as practicable. Distributions from the fund are not permitted until the balance of the fund reaches \$250,000.

As of December 31, 2012 and 2011, the fair market values of the endowments were \$873,072 and \$193,757, respectively.

**LITERACY COUNCIL OF TYLER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 5 – ENDOWMENT FUNDS – continued**

**RECONCILIATION OF ORGANIZATION’S ENDOWMENT BY NET ASSET CLASS:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 193,757	\$ -	\$ -	\$ 193,757
Current year contributions:	98,589	-	539,000	637,589
Investment return:				
Investment income	9,030	-	9,235	18,265
Net appreciation	13,677	-	18,934	32,611
Total investment return	<u>22,707</u>	<u>-</u>	<u>28,169</u>	<u>50,876</u>
Other changes:				
Administrative fees	(2,535)	-	(3,162)	(5,697)
Investment fees	(1,502)	-	(1,701)	(3,203)
Miscellaneous expenses	(66)	-	(184)	(250)
Total other changes	<u>(4,103)</u>	<u>-</u>	<u>(5,047)</u>	<u>(9,150)</u>
Endowment net assets, end of year	<u>\$ 310,950</u>	<u>\$ -</u>	<u>\$ 562,122</u>	<u>\$ 873,072</u>

The expenses related to the permanently restricted endowment are reflected on the Statement of Activities net of dividend income.

**NOTE 6 – RELATED PARTY TRANSACTION**

The Organization maintains credit cards for work-related use by employees and an employee’s spouse, who is a volunteer with experience in computer and printing equipment that assists the Organization in purchasing such items.

**NOTE 7 – CONCENTRATIONS**

The Organization derives a significant portion of its revenue, approximately 43% during 2012 and 68% during 2011, from various grant programs. If this funding source were significantly reduced, it could have an adverse effect on the Organization’s activities and level of service.

**LITERACY COUNCIL OF TYLER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 8 – LEASING ARRANGEMENTS**

Capital Lease – There were no leases categorized as capital leases for 2012. In 2011, the Organization was the lessee of certain office equipment under a capital lease which expired in 2011. The total payments made in 2011 totaled \$2,447, of which \$2,040 represented the minimum lease payment.

In 2012, the Organization has entered into other leasing arrangements. However, for materiality purposes, the leases have been classified as operating leases.

Operating Lease - The Organization is the lessee of certain office equipment under operating leases with varying expirations through 2017. Lease expense for office equipment was \$10,817 and \$9,994, in 2012 and 2011, respectively.

The minimum lease payments required under the above operating leases as of December 31, 2012 are as follows:

<u>Year Ending December 31,</u>	<u>Base Rental Payments</u>
2013	12,862
2014	12,531
2015	4,908
2016	4,908
2017	2,045
Thereafter	2,045
Total Payments	<u><u>\$ 39,299</u></u>

**NOTE 9 – IN-KIND DONATIONS – RENT**

The Organization maintains offices on the Tyler Junior College West Campus (“College”). The College has agreed to lease the offices for a \$10 rental fee. In return, the Organization administers certain grants on behalf of the College. As a result, the fair rental value of \$45,000 for the office lease has been recorded on the financial statements as an in-kind donation of revenue and rental expense.

The Organization also utilizes rental space located at Rose Heights Church, First United Methodist Church in Mineola, and Douglas Elementary Campus. Based upon the prevailing market lease rates for the type of space being utilized, the fair rental values are estimated to be \$62,064, \$37,400 and \$81,600 respectively.

Total in-kind donations related to rent as of December 31, 2012 and 2011, was \$ 226,064 and \$184,440, respectively.



**LITERACY COUNCIL OF TYLER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**NOTE 10 – SPECIAL EVENTS**

The Organization hosted two special events for 2012: the Spelling Bee and the Barbara Bush Luncheon. The schedule below summarizes the activity related to both events.

<b>Event</b>	<b>Revenues</b>	<b>Non-Cash Revenues</b>	<b>Expenses</b>	<b>Net</b>
Spelling Bee	\$ 59,620	\$ 10,784	\$ (20,500)	\$ 49,904
Barbara Bush Luncheon	124,884	45,323	(80,215)	89,992
Total	<u>\$ 184,504</u>	<u>\$ 56,107</u>	<u>\$ (100,715)</u>	<u>\$ 139,896</u>

**NOTE 11 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 11, 2013, the date on which the financial statements were available to be issued.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors  
Literacy Council of Tyler, Inc.  
Tyler, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Literacy Council of Tyler, Inc., (a nonprofit organization) (the Organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 11, 2013.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Organization’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion of the effectiveness of the Organization’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas  
September 11, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors  
Literacy Council of Tyler, Inc.  
Tyler, Texas

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited the Literacy Council of Tyler, Inc.'s, (the Organization) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2012. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**MANAGEMENT'S RESPONSIBILITY**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs.

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

**OPINION ON EACH MAJOR FEDERAL PROGRAM**

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

## REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly this report is not suitable for any other purpose.

  
PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas  
September 11, 2013

**LITERACY COUNCIL OF TYLER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued:	<i>Unqualified</i>
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal Control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None Reported

Type of auditor’s report issued on compliance for major programs:	<i>Unqualified</i>
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
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Identification of major programs:

<b>FEDERAL CFDA Numbers</b>	<u>Name of Federal Program or Cluster</u>
84.002A	Adult Education – Basic Grants to States

Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>300,000</u>
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The Organization was classified as a low-risk auditee in accordance with OMB Circular A-133.

**LITERACY COUNCIL OF TYLER, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**Section II – Financial Statement Findings**

None.

**Section III – Federal Award Findings and Questioned Costs**

None.

**LITERACY COUNCIL OF TYLER, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS - THROUGH GRANTORS NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<b>U.S. DEPARTMENT OF EDUCATION PASS THROUGH FROM:</b>			
Tyler Junior College			
Adult Education - Basic Grants to States	84.002A	124100017110414	\$ 210,022
Adult Education - Basic Grants to States	84.002A	134100017110445	193,038
Adult Education - Basic Grants to States	84.002A	124100087110457	69,188
Adult Education - Basic Grants to States	84.002A	134100087110510	<u>50,059</u>
Total U.S. Department of Education			522,308
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Pass Through Tyler Junior College:			
Temporary Assistance for Needy Families	93.558	123625017110389	14,123
Temporary Assistance for Needy Families	93.558	133625017110419	8,021
Pass Through East Texas Council of Governments:			
Temporary Assistance for Needy Families	93.558	LCOT-TANF-PY11-01	32,729
Temporary Assistance for Needy Families	93.558	LCOT-TANF-PY12-01	<u>10,941</u>
Total U.S. Department of Health and Human Services			65,814
<b>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Pass Through City of Tyler:			
Community Development Block Grant	14.218	294-0930-811.3823	21,935
Community Development Block Grant	14.218	294-0930-811-3792	<u>6,300</u>
Total U.S. Department of Housing and Urban Development			<u>28,235</u>
<b>TOTAL FEDERAL ASSISTANCE</b>			<u><u>\$ 616,358</u></u>



LITERACY COUNCIL OF TYLER, INC.  
 SCHEDULE OF EXPENDITURES OF STATE AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2012

<u>STATE GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE</u>	<u>PASS - THROUGH GRANTORS NUMBER</u>	<u>STATE EXPENDITURES</u>
<b>U.S. DEPARTMENT OF EDUCATION PASS THROUGH FROM:</b>		
Tyler Junior College		
Adult Education - Basic Grants to States	120100017110414	\$ 91,058
Adult Education - Basic Grants to States	130100017110445	<u>3,654</u>
Total U.S. Department of Education		94,712
<b>TEXAS HIGHER EDUCATION COORDINATING BOARD</b>		
Intensive Summer Programs for General Education Students	0-6085	73,171
Innovation Grant	0-7049	53,538
Innovation Grant	0-7049	<u>48,981</u>
Total Texas Higher Education Coordinating Board		<u>175,690</u>
<b>TOTAL STATE ASSISTANCE</b>		<u><u>\$ 270,402</u></u>

**LITERACY COUNCIL OF TYLER, INC.**  
**NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED DECEMBER 31, 2012**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEDULE**

Basis of Presentation

The accompanying schedules of expenditures of federal state awards include the federal grant activity of Literacy Council of Tyler, Inc., (the Organization) and are presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The expenditures included in the schedules are reported for the Organization's year end. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures represent funds which have been expended by the Organization for the purposes of the award. The expenditures may not have been reimbursed by the funding agencies as of the year end. Some amounts reported in the schedule may differ from amounts used in the preparation of the general purpose financial statements. Separate records are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The Organization has followed all applicable guidelines issued by various entities in the preparation of the schedules.